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United States
Department *of* Defense



Navy Enterprise Resource Planning System Does Not
Comply With the Standard Financial Information
Structure and U.S. Government Standard General
Ledger

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Acronyms and Abbreviations

BEA	Business Enterprise Architecture
BTA	Business Transformation Agency
COA	Chart of Accounts
DASN(FMO)	Deputy Assistant Secretary of the Navy for Financial Operations
DCMO	Deputy Chief Management Officer
DDRS	Defense Departmental Reporting System
DFAS	Defense Finance and Accounting Service
ERP	Enterprise Resource Planning
FFMIA	Federal Financial Management Improvement Act of 1996
FMO	Office of Financial Operations
IRB	Investment Review Board
NAVAIR	Naval Air Systems Command
OMB	Office of Management and Budget
SFIS	Standard Financial Information Structure
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Information Officer, DoD
USSGL	U.S. Government Standard General Ledger

February 13, 2012

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
CHAIRMAN, DEFENSE BUSINESS SYSTEMS MANAGEMENT
COMMITTEE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
NAVAL INSPECTOR GENERAL

SUBJECT: Navy Enterprise Resource Planning System Does Not Comply With the
Standard Financial Information Structure and U.S. Government Standard General
Ledger (Report No. DODIG-2012-051)

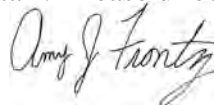
We are providing this report for your review and comment. The Navy approved deployment of the Navy Enterprise Resource Planning (ERP) System without ensuring it complied with the Standard Financial Information Structure and the U.S. Government Standard General Ledger. As a result, the Navy spent \$870 million to develop and implement a system that might not produce accurate and reliable financial information. When deployment is complete, the System will manage 54 percent of the Navy's total obligation authority, which was valued at about \$85 billion for FY 2011. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Director, Acquisition Resources and Analysis, comments were not responsive. We request that the Director, Acquisition Resources and Analysis, provide additional comments on revised Recommendation 1 by March 13, 2012. The Deputy Chief Management Officer responded for the Chairman, Defense Business Systems Management Committee. The comments were partially responsive, and we request additional comments on revised Recommendation 2.a by March 13, 2012.

Comments from the Deputy Assistant Secretary of the Navy (Financial Management and Comptroller, Office of Financial Operations) and the Navy ERP Program Manager, who responded for the Assistant Secretary of the Navy (Research, Development, and Acquisition) were partially responsive. We request the Deputy Assistant Secretary and Program Manager, provide additional comments on Recommendations 3.a, 3.b, 3.c, and 3.g by March 13, 2012. Please see the Recommendations Table on page ii of this report.

If possible, send a portable document (.pdf) file containing your comments to audcleve@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905.



Amy J. Frontz, CPA
Principal Assistant Inspector General
for Auditing



Results in Brief: Navy Enterprise Resource Planning System Does Not Comply With the Standard Financial Information Structure and U.S. Government Standard General Ledger

What We Did

We determined whether the Navy Enterprise Resource Planning System (System) complied with the Standard Financial Information Structure (SFIS) and the U.S. Government Standard General Ledger (USSGL).

What We Found

The Navy developed and approved deployment of the System to 54 percent of its obligation authority, which was valued at \$85 billion for FY 2011, without ensuring that the System complied with SFIS and USSGL.

The Navy did not have an adequate plan to incorporate SFIS requirements into the development and implementation of the System, did not develop an adequate validation process to assess compliance with SFIS requirements, implemented the System to accommodate existing Navy Chart of Accounts and noncompliant procedures, and failed to implement processes necessary to support requirements. As a result, the Navy spent \$870 million to develop and implement a system that might not produce accurate and reliable financial information.

What We Recommend

The Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) should review the Navy ERP System's Business Enterprise Architecture (BEA) compliance status to ensure adequate progress is being made toward the planned FY 2015 SFIS compliance date before approving deployment to additional commands.

The Defense Business Systems Management Committee Chairman should

- track the configuration and implementation of BEA requirements to ensure adequate progress is being made toward the planned SFIS compliancy date, and
- require the Investment Review Board to update guidance for assessing SFIS compliance to include an independent validation before making a system certification recommendation.

The Assistant Secretaries of the Navy (Research, Development, and Acquisition and Financial Management and Comptroller) should

- implement SFIS requirements for the System, and use the independent SFIS validation to improve the validation process,
- update the System Chart of Accounts to include all USSGL/DoD accounts used to prepare Navy financial statements,
- comply with Treasury updates, and
- review financial operations and policy governing the System.

Management Comments and Our Response

The USD(AT&L) comments were nonresponsive, and we request additional comments on Recommendation 1. The Deputy Chief Management Officer and Navy comments were partially responsive, and we request additional comments on Recommendations 2.a, 3.a, 3.b, 3.c, and 3.g. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense for Acquisition, Technology, and Logistics	1	
Chairman, Defense Business Systems Management Committee	2.a	2.b
Assistant Secretary of the Navy (Research, Development, and Acquisition)	3.a, 3.b, 3.c, 3.g	3.d, 3.e, 3.f
Assistant Secretary of the Navy (Financial Management and Comptroller)	3.a, 3.b, 3.c, 3.g	3.d, 3.e, 3.f

Please provide comments by March 13, 2012.

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Introduction

Audit Objectives

Our overall objective was to determine whether the Navy Enterprise Resource Planning (ERP) System, referred to as the System, provides DoD management with accurate, timely, and reliable financial information. Specifically, we determined whether the System complied with the Standard Financial Information Structure (SFIS) and the U.S. Government Standard General Ledger (USSGL). However, compliance with this guidance did not apply to the timeliness of the financial data. As such, we did not determine whether the System provided DoD management with timely financial information. See Appendix A for a discussion of the scope and methodology and prior audit coverage.

Background on the Navy ERP System

Navy ERP

The Navy has experienced long-standing financial reporting problems. The Assistant Secretary of the Navy (Financial Management and Comptroller) has acknowledged seven material weaknesses related to seven of the Navy's business processes and systems: Collections and Disbursements, Procure to Pay Processes, Real Property, General Equipment, Military Equipment, Operating Materials and Supplies, and Inventory. These weaknesses and related problems exist, in part, because the Navy did not design its legacy accounting systems to maintain auditable data at the transaction level to support the amounts reported on its financial statements.

So that its financial statements will be auditable, the Navy is implementing the System throughout its network. An Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Financial Operations (FMO) presentation, "Navy ERP: Roadmap to Enterprise Business Transformation," May 27, 2009, stated that the System enabled, but did not guarantee, audit readiness. To improve the DoD's financial processes, controls, and information, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO) created the "Financial Improvement and Audit Readiness Plan," updated biannually. The guidance for the plan states that reporting entities implementing the ERP systems as a solution for resolving audit impediments should map known processes and control weaknesses to the new systems requirements to ensure that the System will adequately address the impediments.

The System is an integrated business management system implemented to update and standardize Navy business operations, provide financial transparency across the enterprise, and increase effectiveness and efficiency. The System uses a software product from SAP Corporation¹ that allows the Navy to unify, standardize, and streamline all its

¹ The SAP Corporation is the market leader in enterprise application software.

business activities into one integrated system. The Command Implementation Guidance, “Navy Enterprise Resource Planning Program,” Version v2.0, July 15, 2009, states that the System also has the ability to generate auditable financial statements compliant with all current financial accounting standards, and governing policies, regulations, and laws.

The Assistant Secretary of Defense for Networks and Information Integration approved the Navy ERP Program for development in August 2004. Initial deployment of the System at the four major system commands² began in October 2007 at Naval Air Systems Command (NAVAIR), and the Navy plans to complete this deployment in FY 2012 with the Naval Sea Systems Command conversion. According to the Navy, when deployment at the four major system commands is complete, the System will manage 54 percent of the Navy’s total obligation authority, which was valued at about \$85 billion for FY 2011.

ERP Roles

Navy Office of Financial Operations

The FMO is responsible for providing integrated Navy financial management architecture by:

- providing managers with timely, accurate, and useful information for policies, procedures, and direction on accounting, finance, management control, financial services, and financial systems;
- preparing reports and supporting documentation for any adjustments when converting legacy financial systems into the System;
- validating all General Fund and Working Capital Fund balances;
- assisting implementing commands during data conversion planning and migration to the System, including providing policy on financial issues for conversion and data cleansing actions;
- serving as the authority over the System Chart of Accounts (COA) and approving all changes before to their implementation into the System; and
- regularly updating and modifying the COA to validate SFIS and USSGL compliance.

The Navy ERP Program Office Responsibilities

The Assistant Secretary of the Navy (Research, Development, and Acquisition), Navy ERP Program Office (Program Office), is responsible for developing the Navy standard business processes and configuring the System. The Program Office also provides a structured implementation process and functional and technical expertise to support Navy activities’ key implementation events.

² Naval Air Systems Command, Space and Naval Warfare Systems Command, Naval Supply Systems Command, and Naval Sea Systems Command.

The goal of the Navy activities is to ensure site personnel are capable and ready to use the System and that site personnel are able to identify problem documents, verify the activities' ability to meet reporting deadlines, and confirm proper documentation is in place to support all transactions. Navy activities using the System maintain responsibility for reports that the Defense Finance and Accounting Service (DFAS) requires for financial reporting. The Program Office also provides DFAS users with financial display access to the System to assist with all support requirements.

Defense Finance and Accounting Service

The DFAS overall mission is to direct, approve, and perform finance and accounting activities for DoD. DFAS Cleveland is responsible for monthly processing, reporting, and posting of the Navy's financial data to the Defense Departmental Reporting System (DDRS). DDRS produces DoD Components' financial statement reports based on the USSGL. After DFAS processes Navy financial data in DDRS, DDRS compiles and consolidates Navy and other DoD Components' financial data for the DoD agency-wide financial report.

DFAS supports commands and activities that deploy the System; however, Navy officials remain responsible for the reliability of the financial data.³ DFAS:

- provides maintenance of general ledger tables;
- coordinates with Navy activities to verify that they update the System appropriately;
- identifies trial balance issues; and
- prepares the Navy's financial reports from DDRS.

Federal Financial Management Improvement Act Requirements for Financial Management Systems

Public Law 104-208, "Omnibus Consolidated Appropriations Act, 1997," Title VIII, "Federal Financial Management Improvement Act of 1996" (FFMIA), requires that Federal agencies implement financial management systems capable of routinely providing reliable financial information across the Federal Government and applying uniform accounting standards.

Section 803(a) of the FFMIA requires agencies to implement and maintain financial management systems that comply substantially with (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the USSGL at the transaction level.

Section 803(a) of the FFMIA states that to rebuild the accountability and credibility of the Government and restore public confidence, Federal agencies must incorporate

³ A memorandum of understanding between Navy activities and commands implementing ERP and DFAS for operational support was signed in September 2007, detailing the roles and responsibilities and serving as a framework for command-specific agreements.

accounting standards and reporting objectives into their financial management systems so that all the assets and liabilities, revenues, expenditures or expenses, and the full costs of programs and activities can be consistently and accurately recorded, monitored, and uniformly reported throughout the Government.

Navy Needs to Improve Processes for Implementing the ERP System

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses. The Navy did not have an adequate plan to incorporate SFIS requirements in the development and implementation of the System, did not have an adequate validation process to assess compliance with SFIS requirements, implemented the System to accommodate existing Navy COA and noncompliant procedures, and failed to implement processes necessary to support Department of the Treasury (Treasury) and DoD requirements.

We will provide a copy of the report to the senior officials responsible for internal controls in the Offices of the Assistant Secretary of the Navy (Research, Development, and Acquisition) and the Assistant Secretary of the Navy (Financial Management and Comptroller).

Finding. The Navy ERP System Must Comply With SFIS and USSGL

The Navy developed and approved deployment of the Navy ERP System to 54 percent of its obligation authority without ensuring that the System complied with the SFIS and USSGL. Specifically, the Program Office and FMO officials (Navy officials):

- deployed the System even though it was only 53-percent compliant⁴ with FY 2010 Business Enterprise Architecture (BEA) 7.0 SFIS Compliance Checklist requirements;
- inaccurately completed the BEA 7.0 SFIS Compliance Checklist;
- did not include 110 of 294 USSGL/DoD accounts required to support Navy financial statements;
- did not make at least two updates to the USSGL/DoD COA, as required by the Treasury;
- did not implement an accurate crosswalk from the Navy COA to the USSGL/DoD COA in the System (there were 41 differences between the official Navy crosswalk and the System crosswalk); and
- did not support amounts reported for the Navy by DORS in the System.

This occurred because Navy officials did not adequately plan to incorporate SFIS requirements into the development and implementation of the System, did not develop an adequate validation process to assess compliance with SFIS requirements, implemented the System to accommodate existing Navy COA and noncompliant procedures, and failed to implement processes necessary to support Treasury and DoD requirements.

As a result, the Navy spent \$870 million to develop and implement a system that may not produce accurate and reliable financial information. In addition, the System may not correct the Navy's long-standing material weaknesses.

Standard Financial Information Structure

Public Law 108-375, "The National Defense Authorization Act for FY 2005," October 28, 2004, requires an information infrastructure that, at a minimum, integrates budget, accounting, program information, systems, and performance. Office of Management and Budget Circular No. A-127 (OMB Circular A-127) and the Revised

⁴Not all SFIS requirements have been defined. See Table 1 for a complete description of the Navy ERP SFIS compliancy status for FY 2009 and FY 2010.

Implementation Guidance for the FFMIA requires agency financial management systems to reflect an agency-wide financial information classification structure that is consistent with the USSGL. DoD uses the SFIS to meet these requirements. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 1, Chapter 4, “Standard Financial Information Structure (SFIS),” requires that Military Departments maintain their systems to be consistent with SFIS requirements.

SFIS is a comprehensive systems language that supports information and data requirements for budgeting, financial accounting, cost and performance management, and external reporting across DoD. It provides an enterprise-wide standard for categorizing financial information to support financial management and reporting functions that DoD requires of all systems supporting financial transactions.

The Business Transformation Agency (BTA)⁵ facilitates the governance of the SFIS Board and approves systems implementation plans. BTA was established to guide the transformation of business operations throughout DoD and to deliver enterprise-level capabilities that align to warfighter needs.

The SFIS Board is a cross-agency working group responsible for approving all changes to the SFIS. The Board must vet all changes before the SFIS can be updated. The voting members of the SFIS Governance Board include but are not limited to representatives from the Under Secretaries of Defense; other Defense organizations, such as DFAS and the Defense Logistics Agency; Military Departments (Army, Navy, Air Force, and Marine Corps); and U.S. Special Operations Command.

The Military Departments and the Defense agencies are responsible for implementing SFIS for all applicable target systems that interface with the System, by ensuring and maintaining compliance with the BEA 7.0 SFIS Compliance Checklist (checklist).

Navy Officials Need to Address SFIS Compliance

Navy officials indicated in their self-assessment that the System complied with only 53 percent of FY 2010 checklist requirements.

Navy officials indicated in their self-assessment that the System complied with only 53 percent of FY 2010 checklist requirements. To validate SFIS compliance, Navy officials must annually complete the checklist and indicate when they will correct noncompliant items. The checklist includes

72 data elements and 335 business rule requirements⁶ selected by the SFIS Board and facilitated by BTA. Table 1 shows the results of the checklist for FY 2009 and FY 2010, based on a self-assessment of the 335 business rules.

⁵ The BTA is scheduled to be dissolved and its responsibilities shifted to the Deputy Chief Management Officer. The BTA indicated that SFIS governance and facilitation would continue under the Deputy Chief Management Officer.

⁶ A data element is a named identifier of each of the entities and their attributes that are represented in a database and a business rule is a statement that defines or constrains some aspect of the business. It is intended to assert business structure or to control or influence the behavior of the business.

Table 1. The System's SFIS Compliance Status

Fiscal Year	SFIS Compliant	SFIS Noncompliant	SFIS Did Not Apply	Compliance to Be Determined
2009	54.1%	17.6%	17.3%	11.0%
2010	53.4%	20.0%	17.3%	9.3%

Navy officials provided to the BTA their planned action for SFIS compliance in the checklists. For example, Navy officials stated that they would work with BTA to make changes to master data interfaces for business and trading partner numbers with an estimated compliance date of September 30, 2015. Navy officials indicated that the entire System for the four major system commands would be compliant by FY 2015. Navy officials expected the complete deployment of the System at the four commands by FY 2012 even though the expected compliance date was not until 3 years after full deployment.

The System was not SFIS-compliant because Navy officials did not adequately plan to incorporate SFIS requirements while developing and implementing the System. For example, the Navy began deployment and implementation of the System in October 2007; however, as of January 2011, Navy officials had not included an SFIS-compliant standard (USSGL/DoD) COA in the System.⁷

USD(C)/CFO issued a memorandum, "DoD Standard Chart of Accounts in Standard Financial Information Structure," August 13, 2007, requiring implementation of USSGL account and DoD standard account extensions to provide the detail required for budgetary, financial, and management reports. Implementation of the standard COA was meant to eliminate translation and crosswalking of account values into DDRS. Navy officials should have incorporated this requirement into the development and implementation; however, instead, they continued to use the Navy's standard COA, which is not SFIS compliant.

Section 2222, title 10, United States Code (10 U.S.C. § 2222) requires DoD to conduct a periodic review, at least annually, of every Defense business system investment, for funding to be approved. The Investment Review Board (IRB) issued guidance that incorporates 10 U.S.C. § 2222 and directs the Components to complete annual reviews and ensure that their systems are assessed against the DoD BEA. The Components complete the IRB Annual Review Assertion Memo, where they identify which version of the BEA their systems are or will be compliant with and which version of the BEA their systems were last certified against. According to the IRB guidance, these internal Component reviews meet the 10 U.S.C. § 2222 Annual Review requirement.

⁷ See "Official Crosswalk Needs to Be Maintained in the System" section for complete details on the COA.

The IRB reviews the Assertion Memo and makes a recommendation to the Defense Business Systems Management Committee for system certification. As stated, BEA compliance is required to be reviewed and certified by the IRB annually and must occur for funding to be approved. In the Navy's annual review submission, Navy officials provided DoD with the compliance checklist,⁸ which showed SFIS noncompliance along with the expected compliance date. The IRB accepted the BEA compliancy package and recommended certification to the Defense Business System Management Committee based on the expected compliancy date.

Because of the inadequate planning, the Navy spent \$870 million to develop and implement the System without demonstrating or validating the capability to process financial transactions that produced reliable financial statements or were SFIS compliant. Navy officials should implement compliant SFIS requirements in the System as currently deployed, and USD(AT&L), as the milestone decision authority, should review the Navy ERP System's BEA compliance status to ensure adequate progress is being made toward the planned FY 2015 SFIS compliance date before approving deployment to additional commands. In addition, the Defense Business System Management Committee should track the configuration and implementation of BEA requirements to ensure adequate progress is being made toward the planned FY 2015 SFIS compliancy date for each funding certification required.

Inaccurate SFIS Compliance Self-Assessment

Navy officials asserted that the System was compliant with two data elements for which it was actually noncompliant.

Navy officials inaccurately completed the checklist during the self-assessment of the System's SFIS compliance. Specifically, Navy officials asserted that the System was compliant with two data elements for which it was actually noncompliant.

This occurred because Navy officials did not develop an adequate validation process to assess compliance with defined SFIS requirements.

As discussed in the previous section, the checklist measures compliance with 72 SFIS data elements and 335 corresponding business rules. Each data element may have 1 to 12 business rules. To be compliant with an SFIS data element, the system must be compliant with all applicable business rules. Noncompliance with data elements and business rules can result in posting errors and incorrect reporting of financial data.

The DFAS Strategic Business Management Office created the System "Issues List," which included procedural and systemic issues that occurred from monthly interfaces between the System and DDRS. In conjunction with DFAS and the Navy, we identified 11 issues that affected financial data. We examined the financial issues and traced those issues to the related data elements and business rules in the checklist. Navy officials incorrectly certified the System as compliant with two data elements, related to 7 of the

⁸ While the checklist focuses specifically on the SFIS, it is one in a series of BEA compliance products. This checklist is required to be used when evaluating systems for SFIS compliance.

11 issues,⁹ such as reclassifications, general ledger posting corrections, and manual creation of unsupported journal vouchers. See Appendix B for details on the seven issues.

In addition, BTA started an SFIS validation assessment in May 31, 2011.¹⁰ This review was part of a larger review of all ERP systems that were then in use for DoD. BTA independently examined checklist business rules in the System to assess the System's SFIS compliance. We compared the results of BTA's ongoing assessment with the Navy's FY 2010 checklist assertions and found that Navy officials had asserted compliance with an additional 10 business rules¹¹ with which the System was actually noncompliant.

Because of the inaccurate self-assessment, Navy financial managers overlooked the System issues in financial data posting and reporting. Therefore, posting logic errors went undetected in the System's trial balance submissions, which required DFAS to make journal vouchers to correct Navy financial data. For example, the Navy applied surcharges to budgetary accounts, although according to the "DoD Financial Management Regulation" guidance, surcharges have no budgetary impact. The undetected posting logic errors impeded the Navy's ability to accurately report financial data from the System to stakeholders, and DFAS indicated that the errors required a significant amount of resources to correct, which increased costs to DoD.

In addition, the IRB relied on this inaccurate self-assessment during the annual certification review. Navy officials should use the independent SFIS validation assessment performed by BTA and the subsequent discussions to improve the validation process. In addition, the Defense Business System Management Committee should require the IRB to update guidance for assessing SFIS compliance to include an independent validation assessment of SFIS compliance before making a system certification recommendation.

Chart of Accounts Guidance

OMB Circular A-127 and the FFMIA require the use of USSGL in all DoD accounting systems for all appropriations and funds and for internal and external reporting needs. "Treasury Financial Manual," Supplement 2, "United States Standard General Ledger (USSGL) Accounts and Definitions" (2009) requires subsidiary accounts to summarize to the four-digit USSGL accounts. The USSGL standardizes Federal agency accounting and supports the preparation of external reports required by the OMB and Treasury. The COA provides the basic structure for the USSGL, and attributes are added to provide the appropriate level of detail needed for agency reporting.

⁹ The remaining four issues were related to business rules that Navy officials certified as noncompliant.

¹⁰ The BTA validation was not completed as of September 2011.

¹¹ In order to be accurate, we only included business rules that were consistent between checklist versions 7.0 (FY 2010) and 8.0 (FY 2011).

The USD(C)/CFO memorandum dated August 13, 2007, further defined the COA requirement. This policy requires consistent implementation of a DoD standard COA, which comprises USSGL accounts and DoD standard account extensions in Component target general ledger accounting systems. The ERP System is the Navy's target general ledger accounting system and should include the USSGL/DoD COA.

System Needs to Include All Reported USSGL/DoD Accounts

Navy officials did not include in the System 110 of the 294 USSGL/DoD accounts reported on Navy financial statements.

Navy officials did not include in the System 110 of the 294 USSGL/DoD accounts reported on Navy financial statements. With assistance from USD(C)/CFO personnel, we determined that the System should have used the 110 accounts to fully support Navy financial data reported from DDRS.

As the Navy financial system of record where implemented, the System should include and maintain subsidiary information for all transactions and a comprehensive COA to process all Navy and DoD financial transactions that support Navy financial reports.

Navy officials indicated that the initial System COA included the November 2003 Navy COA and other accounts developed by the SAP Corporation to address posting logic issues, which did not include 110 additional USSGL/DoD accounts. Navy officials omitted those accounts because they had not developed a process that ensured compliance with Treasury guidance to include all required general ledger accounts in the System. The omission of these accounts made it difficult or impossible to trace amounts reported for the Navy by DDRS to the financial system of record and ultimately to the source documentation.

Without these accounts, the System did not produce reliable, supported financial statements without manual intervention. For example, we identified 13 general ledger accounts in the September 30, 2010, DDRS NAVAIR trial balance for appropriation 1804 that were not included in the System. Navy officials should update the System COA to include all USSGL and DoD accounts used to prepare Navy financial statements. See Appendix C for a listing of DDRS trial balance accounts used to prepare Navy financial statements but not included in the System.

Navy Officials Should Update the Chart of Accounts as Required by Treasury Policy

Navy officials did not make at least two updates required by the "Treasury Financial Manual," supplement 2, in the System COA. The "Treasury Financial Manual" required the Navy to add account 1347, Allowance for Loss on Interest Receivable, and delete account 1349, Inventory Purchase – Progress Payment Processing, for FY 2010 reporting. The System was not able to properly record transactions for those accounts for FY 2010 reporting.

Navy officials agreed that they should have made these updates in the System. Navy officials did not update the System COA because they did not have an adequate process to implement Treasury updates to the System. On November 9, 2010, Navy officials created the Navy COA Governance Board charter. The charter established the responsibility for maintaining the COA, but did not include a procedure to verify that system owners made required changes.

The failure to make Treasury updates prevented the System from properly recording transactions for those accounts and from complying with the USSGL/DoD COA. As a result, financial statement amounts reported by the Navy might not be accurate. Navy officials should update the System COA to reflect current Treasury updates applicable to the Navy and develop and implement a procedure to verify that system owners make required changes.

Official Crosswalk Needs to Be Maintained in the System

Navy officials did not implement an accurate crosswalk from the Navy COA to the USSGL/DoD COA in the System. Navy officials maintained the official Navy crosswalk offline in Excel instead of in the System. SFIS requires the use of the USSGL/DoD COA but allows the use of an alternate COA if the system contains a crosswalk to the USSGL/DoD COA. Navy officials used the offline crosswalk to populate the System crosswalk on December 16, 2010. However, we compared the two crosswalks and found 41 differences. Of those differences, 16 accounts were included only in the official crosswalk (offline version), and 25 accounts were included only in the System crosswalk.

Navy officials did not implement an accurate crosswalk in the System because they had not developed a process to validate that the System maintains a crosswalk to the USSGL/DoD COA format. The differences between the crosswalks might cause inaccurate financial reporting because Navy officials mapped accounts differently and they might record data in the wrong account. Navy officials should ensure that an accurate crosswalk exists between the Navy COA and the USSGL/DoD COA and should maintain that crosswalk in the System rather than offline.

Financial System of Record Must Support Financial Statements

DFAS made 71 of the 109 journal vouchers (65 percent) to correct System errors, which accounted for \$551 million of the NAVAIR-reported financial data.

Navy officials did not ensure their financial system of record included all amounts reported by DDRS for the Navy. The System trial balance and the DDRS trial balance differed by \$5.6 billion. Navy officials attributed 99 percent of the discrepancy to different balance presentations by DDRS and by the System. Specifically, DDRS adjusts for normal balances (normal balances are positive amounts, and abnormal balances are negative amounts), while Navy ERP uses actual balances (debit balances are positive amounts, and credit balances are negative amounts).

However, we also identified differences that resulted because feeds from other systems, automated entries, and manual journal vouchers were entered into DDRS but not into the System. We performed our analysis on September 30, 2010,¹² data from NAVAIR appropriation 1804; we also performed an analysis on appropriation years 2006 and 2008 and found similar differences. DFAS provided its NAVAIR Journal Voucher Log,¹³ which included 109 manual journal vouchers made to System data. DFAS made 71 of the 109 journal vouchers (65 percent) to correct System errors, which accounted for \$551 million of the NAVAIR-reported financial data. These errors included a System issue with processing credit memos back to the customer.

In addition, DFAS posted more than 100 temporary journal vouchers into DDRS to reconcile Treasury Tie Point variances for data submitted through the System for the Navy as a whole. The Treasury Tie Points are a set of 14 general ledger reconciliations developed by the Department of the Treasury, used to verify the integrity of the general ledger posting logic residing in the accounting system.

Treasury Tie Point reconciliation variances in the System can occur for several reasons, such as general ledger discrepancies carried forward from converted legacy data, changes to general ledger posting guidance, or commercial-off-the shelf software not supporting Government business processes. DDRS calculates the 14 Treasury Tie Point reconciliations from the System trial balance, and DFAS researches, analyzes, and makes temporary journal vouchers to correct the data; however, the Navy does not make these corrections in the System. The memorandum, “DoD Standard Chart of Accounts in Standard Financial Information Structure,” requires consistent implementation of a DoD standard COA, comprising USSGL accounts and DoD standard account extensions, to provide the detail required for budgetary, financial, and management reports in general ledger accounting systems.

Navy officials did not generate a System trial balance that directly correlated to DDRS amounts because they did not implement the System to capture and produce financial data that support Treasury and DoD reporting requirements. The difference between amounts in DDRS and the System negatively affect the audit trail to transaction detail. As a result, financial statement amounts reported by the Navy may be unreliable and remain unsupported. Navy officials should develop and implement procedures to ensure that required adjustments are made in the accounting system of record and not directly into DDRS at the time of reporting.

¹² This analysis was for appropriation year 2010.

¹³ The Journal Voucher Log was for the NAVAIR September 30, 2010, appropriation 1804 trial balance, which included appropriation years 2005-2010.

Management Comments on the Finding and Our Response

The Deputy Assistant Secretary of the Navy for Financial Operations [DASN(FMO)] provided the following comments on the finding. For the full text of the Deputy Assistant Secretary's comments, see the Management Comments section of the report.

Department of the Navy Comments

DASN(FMO) requested that we revise or delete portions of the finding section, "System Needs to Include All Reported USSGL/DoD Accounts." He stated that the Navy ERP maintains a comprehensive Navy USSGL COA that supports all financial transactions.

In addition, he stated that management had taken action on the recommendations in "Official Crosswalk Needs to Be Maintained in the System," and requested that we delete those recommendations. Finally, he stated that some statements related to the differences between financial information in DDRS and the System might be misleading, and he suggested wording changes.

Our Response

We did not delete the discussion related to the Navy maintaining all accounts supporting the Navy-reported balances in the System. The goal of achieving auditability at the DoD level relies heavily on the interoperability and data standardization of the ERPs. If the Services implement systems to Service- or command-specific needs, that defeats the purpose of establishing standardization and negatively impacts the goal of ultimately producing auditable financial statements at the DoD level.

The USD(C)/CFO memorandum dated August 13, 2007, requires consistent implementation of a DoD Standard COA in the component target general ledger accounting systems. This guidance also states that the COA must be employed in the Component systems to aggregate transaction activity into account balances and report those balances to departmental reporting and other accounting systems. This statement supports our recommendation to include the 110 accounts, which all have amounts reported for the Navy in DDRS. In addition, the September 30, 2010, NAVAIR trial balance we reviewed included 13 of the 110 accounts not supported in the System.

We did not delete recommendations related to the crosswalks between the COA. We acknowledged management actions taken in the recommendations section as responsive, and no further actions are required.

We made wording changes to several sections of the discussion that we agreed clarified issues identified by DASN(FMO) in the report.

Revised Recommendations

On the basis of comments from the Deputy Chief Management Officer (DCMO), who responded for the Chairman, Defense Business Systems Modernization Committee, we

revised Recommendations 1 and 2.a. DCMO stated that she believed that SFIS compliancy could be reached concurrently with future deployments and recommended we change Recommendation 2.a to direct the IRB to track the configuration and implementation of BEA requirements for the System for each funding certification required for further deployment beyond the current program of record. However, we believe that BEA requirements should be tracked to ensure progress was being made toward SFIS compliancy before funding certifications were approved for the then program of record and any future deployments.

We considered DCMO's comments on the recommendations and revised Recommendation 1. This would allow the Navy ERP Program to continue its business transformation planning while also ensuring that SFIS compliancy progress was being made at the deployment approval level.

Recommendations, Management Comments, and Our Response

1. We recommend that the Under Secretary of Defense (Acquisition, Technology, and Logistics) review the Navy Enterprise Resource Planning System's Business Enterprise Architecture Compliance status and develop procedures that will determine when adequate progress is being made toward the planned FY 2015 Standard Financial Information Structure compliance date before approving deployment of the Navy Enterprise Resource Planning System to additional commands that are not included in the current program of record.

USD(AT&L) Comments

The Director, Acquisition Resources and Analysis, disagreed with the recommendation and requested that we delete it. She stated that USD(AT&L) had already considered SFIS requirements in prior acquisition decisions on the System and attached the System's acquisition decision memorandum dated June 30, 2011. That memorandum details the delegation of authority to the Under Secretary of the Navy to declare the System's full deployment when certain conditions are satisfied. One of those conditions was compliance with auditability standards, such as SFIS.

Our Response

The Director's comments were nonresponsive. We revised Recommendation 1, based on the DCMO's comments on Recommendation 2.a, to state that a procedure needed to be in place to ensure adequate progress was being made toward the System's planned FY 2015 SFIS compliance date.

We do not agree that delegating the authority to determine full deployment outside the program of record for the System to the Under Secretary of the Navy ensures that adequate progress is being made toward SFIS compliance. We request that the Director, Acquisition Resources and Analysis, provide comments on the revised recommendation in the final report.

Department of the Navy Comments

Although not required to comment, the Navy ERP Program Manager, responding for the Assistant Secretary of the Navy (Research, Development, and Acquisition), disagreed. She stated that SFIS consists of evolving business rules that require continual efforts to implement the compliance plan and that some of the compliance requirements are part of a broader implementation strategy requiring years to achieve compliance. Further, she stated that since approval of future deployments would be required well in advance of actual deployments, it was important to continue forward with planning for business transformation in parallel with SFIS compliance activities.

In addition, she stated that in May 2011, the BTA conducted an independent assessment of Navy ERP's SFIS v8.0 assessment. Initial results found the Program to be 71-percent compliant.

Finally, she stated that the Navy was scheduled to complete the program of record deployments in October 2012, and at the time of our reporting, there was no requirement for additional deployments past the program of record. She stated that given the time requirements to initiate a new acquisition increment and receive funding through the Planning, Programming, Budgeting, and Execution process, it was unlikely to expect any additional deployments before 2015. Therefore, she stated, the System was planned to be SFIS compliant before deployment to additional commands.

Our Response

We understand the need and encourage continuous planning activities for business transformation in advance of actual future deployments. We also agree that the planning for business transformation can be conducted alongside SFIS compliance, which will make deployment and implementation of the System at future commands more efficient. However, we believe that SFIS compliancy should be considered when deploying the System to additional commands. As a result, we revised the recommendation to ensure that SFIS compliancy progress was reviewed before approval of any future deployments.

2. We recommend that the Chairman, Defense Business Systems Management Committee:

a. Require the Investment Review Board to track the configuration and implementation of Business Enterprise Architecture requirements, such as the Standard Financial Information Structure, to ensure adequate progress is being made toward the planned FY 2015 Standard Financial Information Structure compliancy date for each funding certification required for the current program of record and any future deployments.

DCMO Comments

DCMO partially agreed and stated that DCMO believed deployment and configuration could be accomplished concurrently. Therefore, DCMO recommended changing the wording of the recommendation to have the IRB track the configuration and

implementation progress of BEA requirements for each funding certification until the Navy demonstrates that the System complies with the BEA requirements, such as SFIS.

Our Response

The DCMO's comments were partially responsive. Their recommended revision to the recommendation, however, would not ensure that Navy officials were making progress toward SFIS compliancy before IRB approved additional funding. We revised our recommendation to require the IRB to track the configuration and implementation of BEA requirements to ensure that Navy officials were making adequate progress toward the System's planned FY 2015 SFIS compliancy date. We request that the DCMO comment on the revised recommendation.

Department of the Navy Comments

Although not required to comment, the Navy ERP Program Manager disagreed, stating that given the time requirements to initiate a new acquisition increment and receive funding through the Planning, Programming, Budgeting, and Execution process, it was unlikely that any additional deployments could be executed before 2015. Therefore, the System was planned to be SFIS compliant before deployment to additional commands.

Our Response

We have revised the recommendations based upon the DCMO's comments on the draft report. The revised recommendation better aligns with comments provided by the Navy ERP Program Manager.

b. Require the Investment Review Board to update guidance for assessing Standard Financial Information Structure compliance to include an independent validation assessment before making a system certification recommendation.

DCMO Comments

DCMO agreed with the recommendation and stated that an IRB requirement would be added for an SFIS independent validation assessment as part of BEA v9.0 guidance.

Our Response

The DCMO's comments were responsive, and the planned actions met the intent of the recommendation.

Department of the Navy Comments

Although not required to comment, the Navy ERP Program Manager partially agreed, stating that the assessments were an intensive and complex task. She stated that scheduling validations had to be coordinated with the Program Office to ensure that timelines for assessment and reporting of results supported the Program's need for funds certification.

Our Response

We believe that the independent validations of SFIS compliancy are essential to ensuring that the System is performing as intended. The “Financial Improvement and Audit Readiness Plan,” March 30, 2009, states that “SFIS is critical to the success of all legacy and ERP systems as it standardizes financial reporting, thereby reducing the cost of auditability.” If the validations show that the System does not comply with the requirements, then system certifications and funds approval should be limited to correcting the deficiencies noted during the assessment.

3. We recommend that the Assistant Secretary of the Navy (Research, Development, and Acquisition) and the Assistant Secretary of the Navy (Financial Management and Comptroller):

a. Implement Standard Financial Information Structure requirements for the Navy Enterprise Resource Planning System.

Department of the Navy Comments

DASN(FMO) and the Navy ERP Program Manager agreed, stating that the Navy ERP Program has implemented the SFIS data elements and business rules per the SFIS Resource Guidance. In May 2011, the BTA SFIS team determined that the System was 71-percent compliant with the then SFIS BEA v8.0 data elements and business rules. The implementation of SFIS was evolving, and as such, DASN(FMO) was continuing to work closely with the Navy ERP Program Manager, DFAS Cleveland, and the DDRS Program Management Office to address outstanding issues identified during the May 2011 BTA SFIS team’s formal validation.

Our Response

Although the Navy ERP Program Manager agreed, we considered the comments partially responsive. The Program Manager stated that the Program Office has implemented the SFIS data elements and business rules per the SFIS Resource Guidance. However, the Navy acknowledged in its response that the compliancy rate in BEA v8.0 was 71 percent. On the basis of those results, we do not believe the Navy has implemented the SFIS data elements and business rules in accordance with guidance. We request that the Navy provide us with additional comments, including a plan of action detailing all SFIS deficiencies, management actions to correct the deficiencies, and an estimated completion date.

b. Use the independent Standard Financial Information Structure validation assessment performed by the Business Transformation Agency to improve the validation process and implement Standard Financial Information Structure compliance.

Department of the Navy Comments

DASN(FMO) and the Navy ERP Program Manager agreed, stating that in May 2011, BTA performed an independent SFIS validation assessment to improve the validation

process and implement compliant SFIS. DASN(FMO) plans to leverage the FY 2011 SFIS validation to drive configuration changes in the System for SFIS and USSGL. BTA is to have all these changes reviewed by DCMO as they occur.

Our Response

Although the DASN(FMO) and Navy ERP Program Manager agreed, we consider the comments partially responsive. We recognize the Navy's initiative to work with BTA on the SFIS validation final report and encourage the Navy to continue working with BTA to achieve SFIS compliance. We request that the Navy provide us with additional comments, including a plan of action detailing all SFIS deficiencies, management actions to correct the deficiencies, and an estimated completion date.

c. Update the Navy Enterprise Resource Planning System Chart of Accounts to include all U.S. Government Standard General Ledger and DoD accounts used by the Defense Departmental Reporting System to prepare Navy Financial Statements.

Department of the Navy Comments

DASN(FMO) did not agree. Rather, he stated that updating the System COA to include the 110 accounts would create unnecessary programming requirements and an administrative burden. Maintaining the unused accounts would be considered a required cost for Navy every year without any return on investment. He also stated that updates to the FY 2012 DoD COA and further review of the 110 accounts revealed that the number of missing accounts decreased to 92.

The Navy ERP Program Manager partially agreed. She stated that the Navy ERP Program of record only deploys to six commands, responsible for executing approximately one-half of the Navy's total obligational authority. She also stated that the 110 accounts we identified were not required to support financial management at those commands. In addition, she stated that the System could be updated to include all accounts; however, requiring the System to incorporate the remaining 110 accounts into its general ledger would create an administrative burden.

Our Response

The DASN(FMO) and Navy ERP Program Manager comments were partially responsive. It is our opinion that DoD cannot continue to implement systems to Service- or command-specific desires. This defeats the purpose of establishing the standardization and negatively affects the goal of ultimately producing auditable financial statements at the DoD level.

The USD(C)/CFO memorandum dated August 13, 2007, requires consistent implementation of a DoD Standard COA in Component target general ledger accounting systems. This guidance also indicates the COA must be employed in the Component systems to aggregate transaction activity into account balances and report those balances to departmental reporting and other accounting systems.

We believe our recommendation to include the 110 accounts is supported by these criteria, as DDRS reports these amounts for the Navy. In addition, the September 30, 2010, NAVAIR trial balance we reviewed included 13 of those 110 accounts.

We continue to recommend that Navy update the System COA to include all USSGL and DoD accounts used by the DDRS to prepare Navy financial statements. Further, the Navy should determine the exact amount reported for the Navy by DDRS. We request that the DASN(FMO) and Navy ERP Program Manager reconsider their position on the recommendation and provide comments on the final report.

d. Update the Navy Enterprise Resource Planning System to include all Treasury updates applicable to the Navy.

Department of the Navy Comments

DASN(FMO) agreed; however, the Navy ERP Program Manager partially agreed and stated the Program Office would continue to update the COA as directed by DASN(FMO). Attached to the Navy ERP comments was the Navy COA Governance Board Charter, September 2011, with updated Treasury procedures.

Our Response

The DASN(FMO) comments were responsive. Although the Navy ERP Program Manager only partially agreed, the updated Treasury procedures in the COA Governance Board Charter the DASN (FMO) provided to us met the intent of the recommendation.

e. Finalize and implement an updated charter for the Navy Chart of Accounts Governance Board that includes a procedure to verify that the system owners make required changes.

Department of the Navy Comments

The Navy ERP Program Manager deferred to DASN(FMO) for the response, and the DASN(FMO) agreed. DASN(FMO) approved the updated charter for the Navy COA Governance Board on September 13, 2011.

Our Response

The DASN(FMO) comments were fully responsive, and the actions met the intent of the recommendation.

f. Maintain the official crosswalk between the Navy Chart of Accounts and the U.S. Government Standard General Ledger/DoD Chart of Accounts in the Navy Enterprise Resource Planning System. Establish a procedure in the interim to validate implementation of the crosswalk between the official Navy Chart of Accounts currently maintained in Excel and the U.S. Government Standard General Ledger/DoD Chart of Accounts in the Navy Enterprise Resource Planning System.

Department of the Navy Comments

DASN(FMO) and the Navy ERP Program Manager agreed. DASN(FMO) stated that action has been completed and Program Manager, Navy ERP Program stated that action has been partially completed. Actions completed include a standard operating procedure updated on August 1, 2011, and a verification between the two crosswalks on June 15, 2011.

In addition, both offices discussed the implementation of a process to document the mapping of the Navy COA to USSGL/DoD alternate accounts. The first was submitted to the Navy ERP Program Office on August 2, 2011. In addition, both offices planned continuous coordination to ensure the System and offline crosswalks contained the same information.

Finally, the Navy ERP Program Manager was developing an automated process to reconcile the offline crosswalk against the System crosswalk tables. This process would create an automated validation of the crosswalk submitted by DASN(FMO). This action has been partially completed.

Our Response

The Navy comments were responsive, and the actions met the intent of the recommendation.

g. Establish a process to ensure that required adjustments are made in the accounting system of record and directly into the Defense Departmental Reporting System at the time of reporting.

Department of the Navy Comments

DASN(FMO) agreed in principle, stating this would be a long-term effort in which his office would collaborate with DFAS Cleveland, Navy ERP Program Office, and Navy commands to establish and implement a process that identifies the adjustments, gathers supporting documentation, and properly posts the adjustments in the correct general ledger accounts in the System.

The Navy ERP Program Manager agreed in principle. She stated that the System produced timely balances, verified as accurate, and that differences in trial balances were due to balance presentation, additional interfaces, and funding data. She also stated that the Program Office would provide technical support to DASN(FMO) and DFAS as required to support the development and implementation of a standard process.

Our Response

The Navy comments were partially responsive. We request that Navy provide a response to the final report, specifying the planned completion date for the process that identifies the adjustments, gathers supporting documentation, and properly posts the adjustments in the correct general ledger accounts within the System.

Appendix A. Scope and Methodology

We conducted this performance audit from October 2010 through October 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We interviewed personnel from USD(C)/CFO; NAVAIR Office, Lexington Park, Maryland; FMO, Washington Navy Yard, Washington D.C.; BTA, Arlington, Virginia; DFAS, Cleveland, Ohio; and the Navy ERP Program Office, Annapolis, Maryland.

To gain an understanding of the known System issues, we interviewed DFAS personnel and obtained supporting white papers, journal vouchers, and other documentation to verify the issues were valid.

We examined and compared the issues identified by DFAS with the compliance assertions made by Navy officials in their SFIS self-assessment. After our initial examination, we interviewed BTA personnel to validate and confirm our SFIS findings.

We requested that USD(C)/CFO identify the accounts needed for Navy financial statements from a list of all general ledger accounts in the SFIS COA. We compared the analysis provided by USD(C)/CFO with the COA contained in the System and identified differences.

We compared the Navy COA with all Treasury updates since the deployment of the System and verified the implementation of those updates in the System. We obtained the official Navy COA crosswalk from the Navy COA to the USSGL/DoD COA and compared it to the crosswalk maintained in the System.

In addition, we compared Navy financial data reported out of the System with Navy financial data reported out of DDRS. Specifically, we compared the September 30, 2010, NAVAIR trial balance received from the Navy with the financial data reported out of DDRS by DFAS for the same period. We provided a list of differences to NAVAIR and DFAS and obtained their explanations for the variances.

We also extracted the journal voucher records from the DFAS-generated NAVAIR September 30, 2010, Journal Voucher Log and identified all manually approved journal vouchers related to the System. We worked with DFAS Cleveland accountants to categorize these journal vouchers by reason. We compared results of our examination and observations with established criteria to determine the System's compliance with SFIS and USSGL.

Use of Computer-Processed Data

We used the September 30, 2010, NAVAIR appropriation 1804 trial balance data reported by the System and by DDRS. We also used Navy Standard COA data compiled by the FMO and the Navy ERP Program Office. We determined data reliability by analyzing trial balance data for anomalies, such as abnormal account balances and missing accounts. We also reviewed the manual journal voucher input monthly by DFAS Cleveland to prepare the trial balance in DDRS. We validated the accuracy of the USSGL/DoD COA and SFIS requirements with BTA personnel. We used this information to determine whether the Navy had implemented SFIS and USSGL requirements in the System. We determined that the computer-processed data were sufficiently reliable to support the findings and conclusions in this report.

Use of Technical Assistance

We did not use technical assistance during the audit.

Prior Coverage of the Navy ERP System

During the last 5 years, the Government Accountability Office (GAO) has issued three reports discussing the Navy Enterprise Resource Planning System. Unrestricted GAO reports can be accessed at <http://www.gao.gov>.

GAO Report No. 11-53, “DoD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed,” October 7, 2010

GAO Report No. 09-841, “DoD Business Systems Modernization: Navy Implementing a Number of Key Management Controls on Enterprise Resource Planning System, but Improvements Still Needed,” September 15, 2009

GAO Report No. 05-858, “DoD Business Systems Modernization: Navy ERP Adherence to Best Business Practices Critical to Avoid Past Failures,” October 31, 2005

Appendix B. Issues Incorrectly Classified as Compliant, Which Affected Financial Data

SFIS Data Element	SFIS Business Rule	Issue
A5-Appportionment Category Code	Appportionment category code must be used for accounting classification, general ledger posting, financial reporting, budgetary control, and funds control.	1. ID 442-The System is not using the correct appportionment category codes to comply with DoD budgetary resources reporting policy. The System is using appportionment category codes, but they are not using them in accordance with policy. Manual journal vouchers are required in excess of \$1 billion.
T2-USSGL/DoD Account Code	USSGL account code must be used for general ledger posting, financial reporting, and funds control.	1. ID 349-Invoices that cross commands are causing a posting issue for both Working Capital Fund and General Fund accounts. Specifically, Business Area 1719 is posting within Business Area 1782 for General Ledger Accounts 1523 and 5720.
		2. ID 351-Budgetary to proprietary reconciliation posting logic issues. The System data do not reconcile to the Treasury Tie Points. As a result, unsupported manual journal vouchers are required to correct the data coming from the System.
		3. ID 361-The System feeder files include anticipated general ledgers for expired years on appropriation 1804, but these general ledgers are not valid for expired years. DFAS Cleveland must complete journal vouchers to address the invalid anticipated amounts.

SFIS Data Element	SFIS Business Rule	Issue
		<p data-bbox="935 254 1398 541">4. ID 418-Surcharges are being applied to budgetary accounts. According to Financial Management Regulation guidance, surcharges have no budgetary impact. Journal vouchers are created to correct the posting errors.</p> <p data-bbox="935 554 1398 768">5. ID 446-The System posting logic records again when a discount is taken. This causes an imbalance between budgetary to proprietary tie point accounts.</p> <p data-bbox="935 781 1398 1285">6. ID 456-The System uses general ledger account code 1511.2000 (Operating Materials & Supplies held for use) with offsetting proprietary entries to 2110 (accounts payable) and either 7290 (other losses) or 7190 (other gains). It appears that an offsetting entry to 6100 is not included in the current posting logic. This results in standard general ledger to standard general ledger reconciliation failures.</p>

Appendix C. Navy-Reported Accounts Not Included in the Navy ERP System

	General Ledger Account Number	General Ledger Account Title
1	1010.0350	Fund Balance With Treasury-Cash Transfers
2	1010.0640	Fund Balance With Treasury-Restorations
3	1010.0670	Fund Balance With Treasury-Warrant
4	1010.0680	Fund Balance With Treasury-Child Transfer
5	1010.0820	Fund Balance With Treasury-Foreign Governments
6	1310.0910	Accounts Receivable-Undistributed Collections-Appropriation Level
7	1310.0920	Accounts Receivable-Undistributed Collections-Component Level
8	1310.0930	Accounts Receivable-Undistributed Collections-Business Area Level
9	1320.9000	Employment Benefit Contributions Receivable
10	1410.0200	Advances and Prepayments-Outstanding Contract Financing Payments
11	1521.0900	Inventory Purchased for Resale-LAC
12	1523.0800	Inventory Held for Repair - LAC-Inventory in Transit
13	1523.9000	Inventory Held for Repair
14	1524.0900	Inventory-Excess, Obsolete, and Unserviceable-LAC
15	1526.0100	Inventory-Work-in-Process-Work for Activity Retention
16	1529.0820	Inventory-Allowance-Excess, Obsolete and Unserviceable
17	1529.0880	Inventory-Allowance-Customer Returns-Credit Granted
18	1529.0900	Inventory-Allowance-DLR Exchange Credit
19	1529.0910	Inventory-Allowance-Material Returns, Estimated Repair and Exchange Cost (Supply Management Only)
20	1529.0920	Inventory-Allowance-Available and Purchased for Resale-Purchased at Cost
21	1610.0400	Investments in U.S. Treasury Securities Non-Marketable Market Based
22	1611.0400	Discount on U.S. Treasury Securities-Non-Marketable Market Based
23	1720.0500	Construction-in-Progress-CY Transfers
24	2110.0300	Accounts Payable-Judgment Fund-CDA
25	2110.2100	Accounts Payable-Undistributed Disbursements-Appropriation Level
26	2110.2200	Accounts Payable-Undistributed Disbursements-Component Level
27	2110.2300	Accounts Payable-Undistributed Disbursements-Business Area Level
28	2211.9000	Withholdings Payable
29	2220.0100	Unfunded Leave-Annual Leave
30	2310.0400	Liability for Advances and Prepayments-Progress Billings
31	2960.9000	Accounts Payable From Canceled Appropriations
32	2980.0100	Custodial Liability-A/R

	General Ledger Account Number	General Ledger Account Title
33	2995.9518	Estimated Cleanup Cost Liability-OAEL Active Installations Non BRAC-Environmental Response at OPS Ranges
34	3102.0100	Unexpended Appropriations-Transfers-In-Warrant
35	3102.0200	Unexpended Appropriations-Transfers-In-Transfers
36	3103.0100	Unexpended Appropriations-Transfers-Out-Warrant
37	3310.0500	Cumulative Results of Operations-Transfers In
38	3310.0600	Cumulative Results of Operations-Transfers Out
39	3310.0700	Cumulative Results of Operations-Non Recoverable Depreciation, Amortization, Other Adjustments
40	4047.9000	Anticipated Trans to the General Fund of the Treasury-Current-Year Authority
41	4114.0100	Appropriated Trust or Special Fund Receipts-PBAS Appropriation Level Authority
42	4114.9000	Appropriated Trust or Special Fund Receipts
43	4119.0100	Other Appropriations Realized-PBAS-Appropriation Level Authority
44	4119.0120	Other Appropriations Realized-4550 Internal Distribution Received
45	4119.0130	Other Appropriations Realized-4550 Undistributed Internal Distribution
46	4119.0200	Other Appropriations Realized-UN
47	4119.0210	Other Appropriations Realized-UN-NM
48	4170.0600	Transfers-Current-Year Authority-Undistributed Authority-Undistributed Unobligated Balance
49	4190.0600	Transfers-Prior-Year Balances-Undistributed Authority-Undistributed Unobligated Balance
50	4191.0100	Balance Transfers-Extension of Availability Other Than Reappropriations-PBAS-Appropriation Level Authority
51	4192.9000	Balance Transfers-Unexpired to Expired
52	4195.9000	Transfer of Obligated Balances
53	4199.9000	Transfer of Expired Expenditure Transfers-Receivable
54	4201.4350	Total Actual Resources-Cancelled Appropriation BFY
55	4230.9000	Unfilled Customer Orders Without Advance-Transferred
56	4233.9000	Reimbursements and Other Income Earned-Receivable-Transferred
57	4252.9901	Reimbursements & Other Income Earned-Collected-Col B & C 1002
58	4277.9000	Other Actual Collections-Federal
59	4350.4800	Canceled Authority-Undelivered Orders
60	4350.4900	Canceled Authority-Delivered Orders
61	4392.0600	Permanent Reduction-New Budget Authority Undistributed Authorized Undistributed Unobligated Balance
62	4450.0600	Unapportioned Authority-Undistributed Authorized-Undistributed Unobligated Balance

	General Ledger Account Number	General Ledger Account Title
63	4510.0600	Apportionments-Undistributed Authority-Undistributed Unobligated Balance
64	4610.0600	Allotments-Realized Resources-Undistributed Authorized-Undistributed Unobligated
65	4610.8100	Allotments-Realized Resources-NIF Only
66	4650.0600	Allotments-Expired Authority-Undistributed Auth-Undistributed Unobligated Balance
67	4650.0610	Allotments-Expired Authority-Undistributed Disbursement
68	4690.9000	Anticipated Resources-Programs Exempt From Apportionment
69	4720.9000	Commitments-Programs Exempt From Apportionment
70	4931.9000	Delivered Orders-Obligations Transferred, Unpaid
71	4971.0700	Downward Adjustments of Prior-Year Unpaid Delivered Orders-Obligated Recoveries-Undistributed
72	5310.0600	Interest Revenue-RNATP
73	5600.0500	Donated Revenue-Financial Res-Distributed Offsetting Receipt
74	5700.0240	Expended Appropriations-Non-recoverable Gains and Losses
75	5720.0130	Financing Sources Transferred In Without Reimbursement-WCF Cash/PY Purchase Only
76	5720.0310	Financing Sources Transferred In Without Reimbursement-Inventory Transfers-LAC
77	5720.1400	Financing Sources Transferred In Without Reimbursement-CIP Transfers Close 3310
78	5730.0200	Financing Sources Transferred Out Without Reimbursement-Fund (Cash) Transfer
79	5730.0310	Financing Sources Transferred Out Without Reimbursement-Inventory Transfers LAC
80	5730.1400	Financing Sources Transferred Out Without Reimbursement-CIP Close to 3310
81	5740.9000	Appropriated Earmarked Receipts Transfer In
82	5755.0200	Nonexpenditure Financing Sources-Transfers-In-Fund (Cash) Transfer
83	5765.0200	Nonexpenditure Financing Sources-Transfers-Out-Fund (Cash) Transfer
84	5790.0100	Other Financing Sources-Relating to Adjustment
85	5900.1300	Other Revenue-Distributed Offsetting Receipt
86	6100.0131	O/E-Judgment Fund-CDA
87	6330.9000	Other Interest Expense
88	6400.0400	BE-Personnel Benefits-Health
89	6400.0500	BE-Personnel Benefits-Life
90	6400.0600	BE-Personnel Benefits-Retirement
91	6500.1653	Cost of Goods Sold-Activity Retention
92	6500.9000	Cost of Goods Sold

	General Ledger Account Number	General Ledger Account Title
93	6790.1011	Other Expenses Not Requiring Budgetary Resources-OM &S Used
94	6800.0100	Future Funded Expenses-Annual Leave Liability
95	7180.9010	Unrealized Gains-No BI 7180
96	7190.0010	Other Gains-No BI
97	7190.5110	Other Gains-Non Recoverable-Disposal-MAC No BI-
98	7190.7530	Other Gains-Non Recoverable-Disposal-No BI-LAC
99	7210.7500	Losses on Disposition of Assets-Other-Non-Recoverable Disposal of Inventory
100	7210.9000	Losses on Disposition of Assets-Other
101	7290.0110	Other Losses-Nonrecoverable Gains and Losses-No BI
102	7290.0210	Other Losses-Other Inventory Losses-No BI
103	7290.0310	Other Losses-Shrinkage/Deterioration Losses-No BI
104	7290.7010	Other Losses-Non-Recoverable-No BI
105	7290.7530	Other Losses-NR G/L Disp Exc Inv LAC No BI
106	7290.9010	Other Losses-No BI
107	7290.9020	Other Losses-CNATP
108	7300.0100	Extraordinary Items-Liabilities Assumed-Used
109	7400.0100	Prior Period Adjustments Due to Corrections of Errors-Non-Recoverable-Deferred
110	7400.9010	Prior-Period Adjustments Due to Corrections of Errors-No BI

Under Secretary of Defense, Acquisition Technology and Logistics Comments

Final Report
Reference



OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

DEC - 8 2011

MEMORANDUM FOR PROGRAM DIRECTOR, DOD PAYMENTS & ACCOUNTING
OPERATIONS,
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Response to OIG Draft Report on "Navy Enterprise Resource Planning System's
Compliance with the Standard Financial Information Structure and the U.S.
Standard General Ledger" (Project No. D2011-D000FN-0002.000)

As requested, I am providing comments on the recommendation contained in the subject report. Our response to the recommendation is provided below.

Recommendation 1:

We recommend that the Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)) approve deployment of the Navy Enterprise Resource Planning (ERP) System to additional commands that are not included in the current program of record only when it fully complies with the defined Standard Financial Information Structure (SFIS) requirements.

Response:

Non-Concur. We recommend you delete Recommendation 1 for the following reasons: the USD(AT&L) has already taken into consideration SFIS requirements in prior acquisition decisions on Navy ERP and continues to highlight the need to provide DoD management with accurate, timely, and reliable financial information, as demonstrated in the acquisition decision memorandum (ADM) of June 30, 2011 (attached). This ADM also includes specific language to achieve audit readiness by 2017.

Please contact [REDACTED] if additional information is required.

Nancy L. Spruill
Nancy L. Spruill
Director
Acquisition Resources and Analysis

Attachment:
As stated

[REDACTED]
[REDACTED]

Revised

Office of the Deputy Chief Management Officer Comments



DEPUTY CHIEF MANAGEMENT OFFICER
9010 DEFENSE PENTAGON
WASHINGTON, DC 20301-9010

DEC 1 2011

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL (DEFENSE PAYMENTS
AND ACCOUNTING OPERATIONS)

SUBJECT: Comments to Draft Audit Report, "Navy Enterprise Resource Planning System Does
Not Comply With the Standard Financial Information Structure and U.S. Standard
General Ledger" (Project No. D2011-D000FN-0002.000)

This memorandum responds to your request for comments on two audit
recommendations contained in the subject draft audit report issued October 31, 2011. We
partially concur with recommendation 2.a and concur with recommendation 2.b. Our detailed
response to the recommendations is provided in the attachment.

_____ is the point of contact for this response. He can be reached by
telephone at _____

A handwritten signature in black ink, appearing to read "Elizabeth A. McGrath".

Elizabeth A. McGrath

Attachment:
As stated



**DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR GENERAL (DoDIG)
DRAFT REPORT DATED OCTOBER 31, 2011, PROJECT NO. D2011-D000FN-0002.000
“NAVY ENTERPRISE RESOURCE PLANNING SYSTEM DOES NOT COMPLY WITH
THE STANDARD FINANCIAL INFORMATION STRUCTURE AND U.S. STANDARD
GENERAL LEDGER”**

**OFFICE OF THE DEPUTY CHIEF MANAGEMENT OFFICER (DCMO)
COMMENTS TO DoDIG RECOMMENDATIONS**

RECOMMENDATION 2.a: “We recommend that the Chairman, Defense Business Systems Management Committee approve funding for further deployment of the Navy Enterprise Resource Planning System to additional commands that are not included in the current program of record only when the Navy can demonstrate that the Navy Enterprise Resource Planning System complies with the Business Enterprise Architecture (BEA) requirements, such as the Standard Financial Information Structure.”

Revised

DCMO RESPONSE: Partially concur. While we agree with the importance of Navy Enterprise Resource Planning demonstrating it complies with the Business Enterprise Architecture requirements, we believe that deployment and configuration can be accomplished concurrently. Therefore, we recommend making the following changes to the wording for Recommendation 2.a,

“We recommend that the Chairman, Defense Business Systems Management Committee require the Investment Review Board track the configuration/implementation progress of BEA requirements for the Navy Enterprise Resource Planning System for each funding certification required for further deployment beyond the current program of record until the Navy demonstrates that the Navy Enterprise Resource Planning System complies with the Business Enterprise Architecture requirements, such as the Standard Financial Information Structure.”

RECOMMENDATION 2.b: “We recommend that the Chairman, Defense Business Systems Management Committee require the Investment Review Board to update guidance for assessing Standard Financial Information Structure compliance to include an independent validation assessment before making a system certification recommendation.

DCMO RESPONSE: Concur. An Investment Review Board requirement will be added for a Standard Financial Information Structure independent validation assessment as part of Business Enterprise Architecture 9.0 guidance.

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

7000
FMO21320110072

SEP 13 2011

MEMORANDUM FOR DISTRIBUTION

Subj: DEPARTMENT OF THE NAVY CHART OF ACCOUNTS GOVERNANCE BOARD

Encl: (1) Department of the Navy Chart of Accounts Governance Board Charter

1. Enclosure (1) establishes the Department of the Navy Chart of Accounts (DON CoA) Governance Board. The purpose of the Governance Board is to support the DON audit readiness initiatives.
2. The Governance Board will consist of members from Assistant Secretary of the Navy Offices of Financial Operations and Budget, Defense Finance and Accounting Service, DON commands and Office of the Secretary of Defense Comptroller.
3. The Governance Board will be responsible for standardizing the DON general ledger structure, increasing stakeholder awareness, maintaining the approval process and ensuring an accurate database of all budgetary and proprietary entries based on Treasury and Standard Financial Information Structure regulations.

4. My point of contact is [REDACTED] or via [REDACTED]

DENNIS J. TAITANO
Deputy Assistant Secretary of the Navy
(Financial Operations)

Distribution:
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Ref (a)

Subj: DEPARTMENT OF THE NAVY CHART OF ACCOUNTS GOVERNANCE BOARD

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NAVY ERP OFFICE

OFFICE OF THE INSPECTOR GENERAL

OF THE DEPARTMENT OF DEFENSE

DRAFT REPORT

PROJECT NO. D2011-D000FN-002.000

**NAVY ENTERPRISE RESOURCE PLANNING SYSTEM DOES NOT COMPLY WITH
THE STANDARD FINANCIAL INFORMATION STRUCTURE AND THE U.S.
STANDARD GENERAL LEDGER**

**ASSISTANT SECRETARY OF THE NAVY FINANCIAL MANAGEMENT &
COMPTROLLER, OFFICE OF FINANCIAL OPERATIONS (ASN FM&C) (FMO)
RESPONSE**

3. We recommend that the Assistant Secretary of the Navy (Research, Development, and Acquisition) and the Assistant Secretary of the Navy (Financial Management and Comptroller):

a. Implement Standard Financial Information Structure requirements in Navy ERP.

Response: Concur. Navy ERP program has implemented the SFIS data elements and business rules per the SFIS Resource Guidance. In May 2011, BTA SFIS team deemed the Navy ERP system 71% compliant to the current defined SFIS BEA 8.0 data elements and business rules. The implementation of SFIS is evolutionary and as such Navy FMO continues to work closely with Navy ERP, DFAS Cleveland and the DDRS PMO to address outstanding issues identified during the May 2011 BTA SFIS team's formal validation.

b. Use the independent Standard Financial Information Structure validation assessment performed by the Business Transformation Agency to improve the validation process and implement compliant Standard Financial Information Structure compliance.

Response: Concur. An independent Standard Financial Information Structure (SFIS) validation assessment was performed by the Business Transformation Agency (BTA) to improve the validation process and implement compliant Standard Financial Information Structure in May 2011. The Navy (Financial Management and Comptroller) will leverage the Fiscal Year 2011 SFIS Validation to drive configuration changes in Navy ERP for Standard Financial Information Structure (SFIS) and the United States Standard General Ledger (USSGL). BTA will have all these changes reviewed by the Office of Secretary of Defense, Deputy Chief Management Office (DCMO) as they occur. The Navy FMO office and Navy ERP program office are continuously working with BTA/DCMO on the final report.

c. Update the Navy Enterprise Resource Planning System Chart of Accounts to include all U.S. Standard General Ledger and DoD accounts used by the Defense Departmental Reporting System (DDRS) to prepare Navy Financial Statements.

Response: Do Not Concur. Requiring Navy ERP to incorporate the remaining 110 accounts into its general ledger would create unnecessary programming requirements and an administrative burden in the establishment, maintenance, and sustainment of general ledger accounts that Navy ERP Commands are not using, may never utilize, or are not authorized to use.

To establish a new general ledger account in Navy ERP requires valid posting logic that may impact the account during a fiscal year. The posting logic would be generic based on models in the transactional libraries maintained by SFIS or the Treasury Financial Manual (TFM). Once established with all the relevant SFIS data elements, Navy ERP would be required to block the account indefinitely to alleviate any erroneous postings. After the account is established the SFIS data elements would have to be maintained, periodically reviewed, updated, and sustained for the accounts that are indefinitely blocked as they are a part of the SFIS compliance review process conducted by the BTA. Maintaining the unused accounts will be considered a sunk cost for Navy every year without any return on investment.

Additionally, the draft audit report identified 110 USSGL/DoD accounts not being in the system. However, updates to the FY 2012 DoD COA and further review of the 110 accounts revealed that the number of missing accounts decreased to 92. In its FY 2012 general ledger account update the BTA deleted 13 general ledger accounts, one general ledger account 1010.0670 is for Army use only, and 4 general ledger accounts were already in the Navy ERP alternative COA, but were erroneously counted as a part of the 110 missing accounts.

d. Update the Navy Enterprise Resource Planning System to include all Treasury updates applicable to the Navy.

Response: Concur. Navy FMO concurs with updating Navy ERP with Treasury updates that have a bona fide business case for the Navy.

e. Finalize and implement an updated charter for the Navy Chart of Accounts Governance Board, which includes a procedure to verify that the system owners make required changes.

Response: Concur. The Deputy Assistant Secretary of the Navy (Financial Operations) approved the updated charter for the 'Navy Chart of Accounts Governance Board' on September 13, 2011. Ref (a) provides the updated USSGL Governance Board Charter.

In addition, the Governance board has implemented a new Standard Operating Procedure (SOP) developed by Navy ERP Project Management Office (PMO) in conjunction with Navy FMO. The SOP documents the process of making required changes to the chart of accounts within Navy ERP. Ref (b) provides the Navy ERP PMO SOP.

f. Maintain the official crosswalk between the Navy Chart of Accounts and the U.S. Standard General Ledger/DoD Chart of Accounts in the Navy ERP. Establish a procedure in the interim to validate implementation of the crosswalk between the official Navy Chart of Accounts currently maintained in Excel and the U.S. Standard General Ledger/DoD Chart of Accounts in the Navy Enterprise Resource Planning System.

Response: Concur. Action has been completed. The Standard Operating Procedure (SOP) 'General Ledger Chart of Accounts Update Request' by Navy ERP was updated on August 1, 2011. Also, continuous coordination with Navy ERP and FMO will result in cross-walks maintained off-line and contained within Navy ERP with same information.

Navy ERP has completed the validation of the listing against the production COA on June 15, 2011. Navy FMO and Navy ERP implemented a process to capture the mapping of DON COA to USSGL/DoD alternate accounts. The baseline file was submitted to Navy ERP on August 02, 2011.

g. Establish a process to ensure that required adjustments are made in the accounting system of record and directly into the Defense Departmental Reporting System at the time of reporting.

Response: Concur in Principle. FMO agrees that making all required adjustments in the source accounting and not in the departmental reporting system should be the goal of any prudent financial organization. However, it is uncertain whether this is entirely feasible as some adjusting entries occur because of timing issues and may not be identified until after the source accounting system is closed for the month or fiscal year end. This will be a long-term effort in which FMO will collaborate with the DFAS Cleveland, the Navy ERP Program Office, and Navy commands to establish and implement a process that identifies the adjustments, gathering supporting documentation, and properly posting the adjustments in the correct general ledger accounts in Navy ERP.

OFFICE OF THE INSPECTOR GENERAL

OF THE DEPARTMENT OF DEFENSE

DRAFT REPORT

PROJECT NO. D2011-D000FN-002.000

NAVY ENTERPRISE RESOURCE PLANNING SYSTEM DOES NOT COMPLY WITH
THE STANDARD FINANCIAL INFORMATION STRUCTURE AND THE U.S.
STANDARD GENERAL LEDGER

ASSISTANT SECRETARY OF THE NAVY FINANCIAL MANAGEMENT &
COMPTROLLER, OFFICE OF FINANCIAL OPERATIONS (ASN FM&C) (FMO)
RESPONSE

System Needs to Include All USSGL/DoD Accounts Statement. Page 10. *"As the Navy financial system of record where implemented, the System should include and maintain subsidiary information for all transactions and a comprehensive COA to process all Navy and DoD financial transactions that support Navy financial reports."*

Recommend that the DoDIG either revise or delete this statement from the Draft Report.

Rationale: This statement is misleading and implies that Navy ERP uses a different point account structure in its chart of accounts (COA), and does not carry out the fiduciary responsibilities that should be inherent in any accounting system regardless of the COA structure. Navy ERP currently maintains subsidiary information for all transaction as well as a comprehensive DON USSGL COA that supports all financial transactions.

System Needs to Include All USSGL/DoD Accounts Statement. Page 10. *"Navy officials omitted those accounts because Navy officials did not develop a process that ensured compliance with Treasury guidance to include all required general ledger accounts in the System. The omission of these accounts make it difficult or impossible to trace amounts reported by DDERS to the financial system of record and ultimately to the source documentation. Without these accounts in the system, the system does not produce reliable supported financial statements without manual intervention."*

Recommend DoDIG revise or eliminate this section of the Draft Discussion Paper.

Rationale: Navy ERP does maintain the required general ledger accounts in the system to perform its financial responsibilities, thereby complying with Treasury Manual Guidance. The finding infers that Navy ERP should contain all general ledger accounts contained in the Treasury, and consequently Navy ERP would

Revised

then implement accounts that never would be used, as there would be no business case to do so.

Omission of accounts that would not be used would have no impact on financial transactions and statements. This would be the same as if a general ledger account contains a zero balance. Navy ERP contains the general ledger accounts needed to carry out the DoN's business and crosswalks to DORS are maintained in the system, which should provide the relationship between the DON COA and the DoD COA and ultimately to the financial statements. Lastly, in terms of not producing reliable financial statements, this is not necessarily a function of whether Navy ERP incorporates the full COA found in the Treasury Manual; rather it is more a function of the underlying business and transactional processes. It is true that DFAS has to post manual adjustments into DORS but the cause of those adjustments are more attributable to the underlying business processes and supporting transactions than having the full DoD COA incorporated into Navy ERP. Navy ERP could have incorporated the full USSGL COA into the system and DFAS would still have to prepare and execute manual adjustments in DORS.

Navy Officials Should Update the Chart of Accounts as Required by Treasury Policy. Page 11. This section talks to the need to ensure that changes required by Treasury be incorporated into the Navy ERP COA. Additionally, it speaks to the need to establish a USSGL Governance process ensuring that all changes to the general ledger is promptly incorporated into the Navy ERP COA.

Recommend DoDIG consider revising this section. The Director of FMO approved the updated charter for the 'Navy Chart of Accounts Governance Board' on September 13, 2011. See Ref (a). In addition, the Governance board has implemented a new Standard Operating Procedure (SOP) developed by Navy ERP in conjunction with Navy FMO. The SOP documents the entire process of making required changes to the chart of accounts within Navy ERP. See Ref (b).

Rationale: Previous procedures required FMO, upon approval by the Navy USSGL Governance Board, to immediately forward the updated DON COA and associated documentation to Navy ERP to update the system. This documentation included the SFIS Crosswalk, USSGL Governance Form, and the General Ledger postings. New procedures have been adopted and a Standard Operating Procedure (SOP) developed on August 1, 2011 to ensure more controls were established to track general ledger submission updates to Navy ERP. The DON COA and SFIS Crosswalk have been completely reformatted to allow the status of GL accounts to be monitored. Any general ledger changes are now submitted to Navy ERP via "heat tickets", which allow a more accurate tracking mechanism.

Official Crosswalk Needs to be Maintained in the System Statement. Page 11. "Navy officials maintained the official crosswalk offline in EXCEL instead of in the System. SFIS requires the use of the USSGL/DoD COA but allows the use of an alternate COA if the system contains a crosswalk."

Recommend the DoDIG consider revising this statement.

Rationale: Navy ERP and FMO personnel have worked on a comprehensive COA and crosswalks from the DON USSGL to the DoD USSGL which contain all of the SFIS elements. FMO and Navy ERP implemented a process to capture the mapping of DON COA to USSGL/DoD alternate account. The baseline file was submitted to Navy ERP 2 Aug 2011.

Financial System of Record Must Support Financial Statements. Page 11. *"Navy officials did not support amounts reported for the Navy by DDRS in their financial system of record."*

Revised

Recommend DoDIG revise or eliminate this section of the Draft Discussion Paper.

Rationale: It is more accurate to state that the financial system of record did not include all amounts reported in the DDRS system. The current wording implies that the Navy officials failed to support amounts, not that the System failed to include them.

Financial System of Record Must Support Financial Statements. Page 11. *"The System trial balance and the DDRS trial balance differed by \$5.6 billion."*

Recommend DoDIG revise this section of the Draft Discussion Paper

Rationale: It should be clarified that this finding applies to NAVAIR data for the 2010 1804 appropriation as of September 30, 2010.

Financial System of Record Must Support Financial Statements. Page 11. *"However, we also identified differences that resulted because feeds from other systems, automated entries, and journal vouchers were entered into DDRS but not into the System."*

Revised
Page 12

Recommend DoDIG revise this section of the Draft Discussion Paper

Rationale: Recommend including the word "manual" before journal vouchers. The DDRS automated entries are also considered journal vouchers. The terms should be mutually exclusive.

Financial System of Record Must Support Financial Statements. Page 11. *"We performed our analysis on September 30, 2010, data from NAVAIR appropriation 1804; we also performed an analysis on appropriation years 2006 and 2008 and found similar differences."*

Page 12

Recommend DoDIG revise this section of the Draft Discussion Paper

Rationale: The finding does not specify that the analysis was performed on appropriation year 2010, which opens the statement to misinterpretation. The

reporting year and the appropriation year are not synonymous. Recommend this statement be modified to specify the appropriation years used for the analysis.

Financial System of Record Must Support Financial Statements. Page 11. *“DFAS provided the NAVAIR Journal Voucher Log,* which included 109 manual journal vouchers made to System data. DFAS made 71 of the 109 journal vouchers (65 percent) to correct System errors, which accounted for \$551 million of the NAVAIR-reported financial data.”*

*Footnote 12 (bottom of page 11): “The Journal Voucher Log was for the NAVAIR September 30, 2010, appropriation 1804 trial balance, which included appropriation years 2005-2010.”

Recommend DoDIG revise this section of the Draft Discussion Paper

Rationale: The journal voucher log should not be identified as the “NAVAIR Journal Voucher Log”. It is used for NAVAIR data, but it is maintained by DFAS, not NAVAIR. The current wording implies NAVAIR ownership/maintenance.

The footnote information should be provided in the body of the text. It should be made clear that the analysis of the journal voucher log was independent of the trial balance analysis performed on appropriation years 2006, 2008, and 2010. Otherwise, the journal voucher log findings must be limited to appropriation years 2006, 2008, and 2010.

Of the 109 manual journal vouchers referenced by DoDIG, only 46 journal vouchers apply to the appropriation years under review. Of the 46 journal vouchers that apply to the appropriation years under review, only 30 journal vouchers (65%) were posted by DFAS to correct system errors. These 30 journal vouchers accounted for only \$81 million of the NAVAIR reported financial data under review, rather than the \$551 million reported by DoDIG. The below table provides additional details.

Appropriation Year	JV Count	JV Amount	% of FY 2010 \$5.6 billion difference
2010	4	\$10,597,163.67	0.19%
2008	18	\$66,528,117.27	N/A
2006	8	\$3,800,060.54	N/A
Total	30	\$80,925,341.48	N/A

Financial System of Record Must Support Financial Statements. Page 12. *“These errors included a System issue with processing credit memos back to the customer.”*

Recommend DoDIG revise this section of the Draft Discussion Paper

Rationale: Of the 30 journal vouchers posted by DFAS to correct system errors for the appropriation years under review, only 2 for a total of \$462K were related to customer credit memos. Both were manually reversed the following year because they were incorrectly posted by DFAS as permanent rather than permanent with reversal.

Of the 71 journal vouchers posted by DFAS to correct system errors for the appropriation years included in the Journal Voucher Log (2005-2010), only 4 for a total of \$11.3M were related to customer credit memos. All 4 were reversed the following year because they were incorrectly posted by DFAS as permanent rather than permanent with reversal.

The Journal Voucher Log includes the following statement related to the reversals: “Data has come in from Navy ERP to offset the issues caused by these credit memos.”

Financial System of Record Must Support Financial Statements. Page 12. *"In addition, DFAS posted more than 100 temporary journal vouchers into DDRS to reconcile Treasury Tie Point variances for data submitted through the System for the Navy as a whole."*

Recommend DoDIG revise this section of the Draft Discussion Paper

Rationale: Per DFAS Cleveland, the 100 temporary journal vouchers referenced by DoDIG are a subset of the 109 manual journal vouchers reviewed by DoDIG and should not be identified as such. The phrase "for the Navy as a whole" should be omitted or clarified. The data under review was for NAVAIR only, not for the Navy as a whole.

Section: Appendix A. Scope and Methodology. Page 14. *"In addition, we compared Navy financial data reported out of the System with Navy financial data reported out of DDRS. Specifically, we compared the September 30, 2010, NAVAIR trial balance received from the Navy with the financial data reported out of DDRS by DFAS for the same period."*

Recommend DoDIG revise this section of the Draft Discussion Paper

Rationale: This statement should be modified to specify the appropriation years used for the trial balance comparison.

Page 21



DEPARTMENT OF THE NAVY
NAVY ENTERPRISE RESOURCE PLANNING PROGRAM
2551 RIVA ROAD
ANNAPOLIS, MD 21401

IN REPLY REFER TO

7000
Ser Navy ERP 11/083
15 Nov 2011

From: Program Manager, Navy Enterprise Resource Planning Program
To: Assistant Secretary of the Navy (Financial Management and Comptroller)
Via: (1) Program Executive Officer, Program Executive Office Enterprise Information Systems
(2) Assistant Secretary of the Navy (Research, Development and Acquisition)

Subj: NAVY ENTERPRISE RESOURCE PLANNING PROGRAM (NAVY ERP)
RESPONSE TO DOD IG PROJECT NO. D2011-D000FN-0002.000

Ref: (a) DoD IG memo of 31 Oct 11

Encl: (1) Navy ERP Program responses to recommendations

1. Reference (a) requested comments on the audit of Navy ERP's compliance with the Standard Financial Information Structure (SFIS) and the U. S. Government General Ledger (USSGL) (Project # D2011-D000FN-0002.000). In response, enclosure (1) is provided.

J. E. Carpenter
J. L. CARTER

Navy ERP Response to DoD IG Recommendations in DoD IG Project D2011-D-000FN-0002.000

DoD IG Recommendation #1: "We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics approve deployment of the Navy Enterprise Resource Planning System to additional commands that are not included in the current program of record only when it fully complies with the defined Standard Financial Information Structure requirements."

Navy ERP Program response to recommendation #1: Non-concur.

Revised

(1) We concur with the objective of meeting SFIS compliance requirements for future deployments. In practical terms, SFIS is an evolving set of data elements and business rules requiring continual compliance plan implementation efforts. Some of the compliance requirements, such as IUID, are part of a broader implementation strategy requiring years to achieve compliance. Since approval of future deployments would be required well in advance of actual deployments, it is important to continue forward with planning for business transformation in parallel with SFIS compliance activities. Standard Financial Information Structure (SFIS) is an evolving set of data elements and business rules. As such, each annual assessment is a point in time. The Program develops a plan for compliance based on any gaps identified during each annual assessment and works to resolve them in a timely manner, as approved and funded by the Navy. The Program's plan for SFIS compliance is submitted to the Business Transformation Agency (BTA)/OSD Deputy Chief Management Officer (DCMO) for review and acceptance as part of the Investment Review Board (IRB) annual review process. The Program is continuously enhancing its capabilities and compliance to maintain alignment with SFIS and other Department goals and objectives. As both SFIS and the Program continue to evolve and improve, it is important that the planning, modernization, standardization, and improvement of business operations and processes for the rest of the Navy continue in parallel with implementation of compliance plans for evolving SFIS requirements.

(2) In May 2011, the BTA/OSD DCMO conducted an independent assessment of Navy ERP's SFIS v8.0 assessment. Initial results found the Program to be 71% compliant. Navy ERP planned to be fully SFIS compliant by 2015 as reported to BTA/OSD DCMO in the Program's SFIS v7.0 assessment. The Program is scheduled to complete the Program of Record deployments in

Enclosure (1)

Navy ERP Response to DoD IG Recommendations in DoD IG Project D2011-D-000FN-0002.000
(continued)

October 2012 and at this time there is no requirement for additional deployments past the Program of Record. Given the time requirements to initiate a new acquisition increment and receive funding through the Planning, Programming, Budgeting, and Execution (PPBE) process, it is unlikely any additional deployments could be executed prior to 2015. Therefore, Navy ERP is planned to be SFIS compliant prior to deployment to additional commands.

DoD IG Recommendation #2.a: "We recommend that the Chairman, Defense Business Systems Management Committee:

a. Approve funding for further deployment of the Navy Enterprise Resource Planning System to additional commands that are not included in the current program of record only when the Navy can demonstrate that the Navy Enterprise Resource Planning System complies with the Business Enterprise Architecture requirements, such as the Standard Financial Information Structure."

Navy ERP Program response to recommendation #2.a: Non-concur. Per the SFIS v7.0 compliance plan, Navy ERP planned to achieve compliance in FY15. As discussed in the response to recommendation #1, given the time requirements to initiate a new acquisition increment and receive funding through the PPBE process, it is unlikely any additional deployments could be executed prior to 2015. Therefore, Navy ERP is planned to be SFIS compliant prior to deployment to additional commands.

Revised

DoD IG Recommendation #2.b: "Require the Investment Review Board to update guidance for assessing Standard Financial Information Structure compliance to include an independent validation assessment before making a system certification recommendation."

Navy ERP Program response to recommendation #2.b: Partially concur. The BTA/OSD DCMO office is now conducting independent validations of assessments however this is an intensive and complex task that is proving to take more time than planned. Scheduling of these independent validations must be coordinated with the Program to ensure timelines for assessment and reporting of results support the Program's need for funds certification.

3. DoD IG Recommendation #3.a: "We recommend that the Assistant Secretary of the Navy (Research, Development, and Acquisition) and the Assistant Secretary of the Navy (Financial Management and Comptroller):

Navy ERP Response to DoD IG Recommendations in DoD IG Project D2011-D-000FN-0002.000
(continued)

a. Implement Standard Financial Information Structure requirements for the Navy Enterprise Resource Planning System.”

Navy ERP Program response to recommendation #3.a: Concur. The Navy ERP Program has implemented the SFIS data elements and business rules per the SFIS Resource Guidance. Navy Office of Financial Operations (FMO) continues to work with Navy ERP, Defense Finance and Accounting Services (DFAS) Cleveland Center, and the Defense Departmental Reporting System (DDRS) Program Management Office to address outstanding issues, as determined during the annual SFIS assessments.

DoD IG Recommendation #3.b: “Use the independent Standard Financial Information Structure validation assessment performed by the Business Transformation Agency to improve the validation process and implement Standard Financial Information Structure compliance.”

Navy ERP Program response to recommendation #3.b: Concur. An independent Standard Financial Information Structure validation assessment was performed by the BTA to improve the validation process and implement compliant Standard Financial Information Structure in May 2011. The Navy FMO and Navy ERP PMO are working with BTA/OSD DCMO on the final report.

DoD IG Recommendation #3.c: “Update the Navy Enterprise Resource Planning System Chart of Accounts to include all U.S. Standard General Ledger and DoD accounts used to prepare Navy financial statements.”

DoD IG Recommendation #3.d: “Update the Navy Enterprise Resource Planning System Chart of Accounts to include all Treasury updates applicable to the Navy.”

Navy ERP Program response to recommendation #3.c. and #3.d:

a. Partially Concur with recommendations. The Navy ERP Program of Record only deploys to six commands (Naval Air Systems Command (NAVAIR), Naval Supply Systems Command (NAVSUP), Naval Sea Systems Command (NAVSEA), Space and Naval Warfare Systems Command (SPAWAR), Strategic Systems Programs (SSP), and Office of Naval Research (ONR)). These commands are responsible for executing approximately one half of the Department of the Navy’s Total Obligational Authority. The remaining 110 accounts identified by the DoD IG are not required to support financial management at these commands.

Navy ERP Response to DoD IG Recommendations in DoD IG Project D2011-D-000FN-0002.000
(continued)

b. Navy ERP can be updated to include all accounts, however requiring Navy ERP to incorporate the remaining 110 accounts into its general ledger would create an administrative burden in the establishment with maintenance, and sustainment of general ledger accounts that the current Navy ERP Department of the Navy commands may never utilize.

c. Navy ERP will continue to update the Chart of Accounts as directed by Navy FMO.

DoD IG Recommendation #3.e: "Finalize and implement an updated charter for the Navy Chart of Accounts Governance Board, which includes a procedure to verify that system owners make required changes.:

Navy ERP Program response to recommendation #3.e: Navy ERP will defer to Navy FMO for this response.

DoD IG Recommendation #3.f: Maintain the official crosswalk between the Navy Chart of Accounts and the U.S. Standard General Ledger/DoD Chart of Accounts in the Navy Enterprise Resource Planning System. Establish a procedure in the interim to validate implementation of the crosswalk between the official Navy Chart of Accounts currently maintained in Excel and the U.S. Standard General Ledger/DoD Chart of Accounts in the Navy Enterprise Resource Planning System.

Navy ERP Program response to recommendation #3.f: Concur.

(1) Action has been partially completed. The revised Standard Operating Procedure on 'General Ledger Chart of Accounts Update Request' by Navy ERP (updated on August 1, 2011) and continuous coordination between Navy ERP and FMO will result in cross-walks off-line and contained within Navy ERP with the same information. Navy FMO and Navy ERP implemented a process to capture the mapping of Navy Chart of Accounts (DON COA) to U.S. Standard General Ledger (USSGL)/DOD Alternate accounts.

(2) Additionally, Navy ERP is developing an automated utility to reconcile the FMO DON COA/DOD USSGL Crosswalk against the Navy ERP General Ledger (GL)/Alternate GL tables. This utility will allow an automated validation of the FMO submitted DON COA/DOD USSGL Crosswalk.

DoD IG Recommendation #3.g: Establish a process to ensure that required adjustments are made in the accounting system of record and not directly into the Defense Departmental Reporting System at the time of reporting.

Navy ERP Response to DoD IG Recommendations in DoD IG Project D2011-D-000FN-0002.000
(continued)

Navy ERP Program response to recommendation #3.g: Concur in principle with clarification from DoD IG on the specifics for validating the Navy ERP system trial balance. The Navy ERP system produces timely balances, which have been verified as accurate; differences in trial balances are due to balance presentation, additional interfaces, specifically, expenditure/reimbursement data from Defense Cash Accountability Systems and funding data from Program Budget Information System. Navy ERP will provide technical support to ASN(FM&C) and DFAS as required to support development and implementation of a standard process.



Inspector General Department of Defense

